

**PUBLIC DISCLOSURE**

May 10, 1999

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**MELROSE CO-OPERATIVE BANK**

638 MAIN STREET  
MELROSE, MA 02176

DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire local community, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Melrose Co-operative Bank prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated “SATISFACTORY”**

The overall rating of satisfactory is based on Melrose Co-operative Bank's adequate net loan to deposit ratios, as well as a willingness to lend to low and moderate income individuals within its assessment area. Additionally, the bank has granted the majority of its HMDA reportable loans inside its assessment area.

The net loan to deposit ratio analysis indicated an average ratio of 72.0 percent over the prior eight quarters. The ratio has been decreasing slightly over this time period from 75.9 percent on March 31, 1997 to the current level of 65.9 percent as of December 31, 1998. Although the ratios have been declining, the level is considered to meet the standard for satisfactory performance.

An analysis of mortgage originations within the assessment area by income of borrowers indicated that 31.1 percent were to borrowers with low and moderate income. The number and level of originations to low and moderate income individuals for 1997 was compared to all other lenders within the bank's assessment area. This information revealed the bank ranked as the number one lender to borrowers of these income categories.

Based on the its 1997 and 1998 Home Mortgage Disclosure Act (HMDA) LAR data, approximately 53.5 percent of the bank's residential and home improvement loans were originated within its assessment area. This level is adequate and is considered to meet the standards for satisfactory performance.

There are no low or moderate-income census tracts in the bank's assessment area. The distribution of loan originations among various census tracts appears reasonable.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Melrose Cooperative Bank was established with the purpose of serving the savings and credit needs of working individuals and businesses located throughout Melrose and surrounding cities and towns. As of March 31, 1999, the bank had total assets of \$81,619,000, of which 53.8 percent were in the form of loans. The bank is primarily a residential lender with 90.6 percent of the total portfolio consisting of loans on 1-4 family residential properties.

Refer to the following table for additional information on the breakdown of loans as of March 31, 1999.

<b>LOAN TYPE</b>	<b>AMOUNT 000's</b>	<b>PERCENT</b>
1-to-4 Family Residential	\$ 39,854	90.6
Commercial Real Estate	\$ 1,399	3.2
Equity Lines of Credit	\$ 1,255	2.8
Consumer	\$ 920	2.1
Multi-family	\$ 308	0.7
Construction	\$ 275	0.6
<b>GROSS LOANS</b>	<b>\$ 44,011</b>	<b>100.0</b>

Source: March 31, 1999 Call Report

Melrose Co-operative Bank operates one full service office located at 638 Main Street with drive-up and walk-up accessibility. In addition, the bank issues ATM cards to its customers that are linked to the Cirrus and NYCE networks. Banking hours appear to be convenient and similar to other area institutions. The office hours are as follows: Monday through Wednesday from 9:00 am to 3:30 p.m.; Thursday and Friday from 9:00 am to 7:00 p.m.; and Saturdays from 8:30 am to 12:30 p.m.

Melrose Co-operative Bank has direct competition within the immediate area from several institutions, including a large number of regional and national mortgage companies. Melrose Co-operative Bank is the only financial institution headquartered in the City of Melrose, however there are several other institutions with branch offices. These include BankBoston, Central Co-operative Bank, Eastern Bank, Fleet Bank, MassBank for Savings, and Northern Bank & Trust.

The examiners used PCI Services, Inc., CRA Wiz, to generate aggregate HMDA reports when comparing Melrose Co-operative Bank to other HMDA lenders throughout its assessment area.

The bank was last examined for compliance with the Community Reinvestment Act by the Federal Deposit Insurance Corporation on October 28, 1998. That examination resulted in a Satisfactory rating. The bank was last examined by the Massachusetts Division of Banks on February 12, 1997. That examination also resulted in a Satisfactory rating.

## **Description of Assessment Area**

Melrose Co-operative Bank has defined its assessment area as the City of Melrose. This delineation places this city within the Boston Metropolitan Statistical Area (MSA). In total, there are four census tracts within the City of Melrose, the bank's assessment area; three that are designated as middle-income and one that is designated as upper-income.

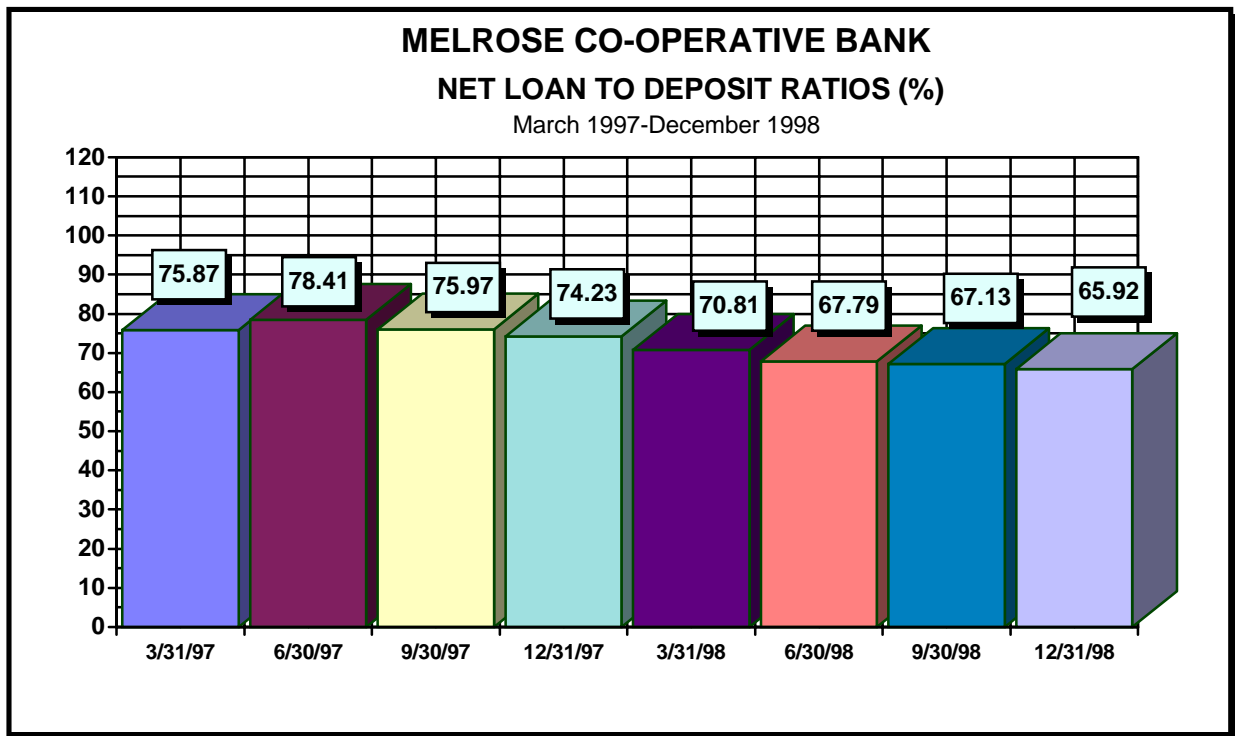
## **Assessment Area Demographics**

According to 1990 US Census Data, Melrose has a combined population of 28,150 and a total of 11,297 housing units. Of the total housing units, 63.3 percent are owner occupied, 33.5 percent are rental units, and 3.1 percent are vacant housing units. The median housing value for the City of Melrose is \$197,032. Melrose is the center of a stable and relatively affluent area. Melrose is approximately seven miles from downtown Boston.

## **PERFORMANCE CRITERIA**

### **1. LOAN TO DEPOSIT ANALYSIS**

Melrose Co-operative Bank's average net loan to deposit ratio was calculated by using the data reported in the previous eight quarterly FDIC Call Reports. This ratio is based on total loans net of unearned income and net of the allowance for loan and lease losses as a percentage of total deposits. The bank's average net loan-to-deposit ratio for the period of March 31, 1997 through December 31, 1998 is 72.0 percent. At the previous examination on February 12, 1997, the average net loan to deposit ratio was approximately 67.3 percent. As indicated in the table below, the bank's net loan to deposit ratio stands at 65.92 percent as of December 31, 1998, and is slowly decreasing. The following graph depicts the net loan to deposit ratio for each quarter under review.



A comparison of the dollar amount for the bank's loans and deposits as of March 31, 1997 was compared to that of December 31, 1998. This comparison revealed that loans have decreased by \$4,878,000 or 9.7 percent, while deposits for the same time period increased by \$2,657,000 or 4.0 percent.

Melrose Co-operative Bank's average net loan-to-deposit ratio was compared to the ratios of three other area institutions of similar asset size. These institutions are not located in the bank's assessment area, however; they were used because they are from neighboring cities and towns. Refer to the following table for information on net loan-to-deposit ratios as of December 31, 1998.

INSTITUTION	NET LOAN TO DEPOSIT RATIO
<b>Melrose Co-operative Bank</b>	<b>65.9%</b>
Winchester Co-operative Bank	73.3%
Saugus Co-operative Bank	61.6%
Wakefield Co-operative Bank	50.1%

Based upon the above information, the bank's capacity to lend and the lending capacity of other similarly situated institutions throughout the bank's assessment area, Melrose Co-operative Bank's net loan to deposit ratio is considered to meet the standards for satisfactory performance.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

A review of Melrose Cooperative Bank's Loan Application Registers (LARs) for 1997 and 1998 was conducted during the examination. This information indicated the bank originated 114 HMDA reportable loans during this period. HMDA reportable loans consist of home purchase and home improvement loans, including refinances, on 1 to 4 family and multifamily (5 or more units) properties.

A total of 61, or 53.5 percent of all HMDA reportable loans were originated within the City of Melrose which makes up the bank's assessment area. Refer to the following table for additional information.

RESIDENTIAL LOANS ORIGINATED BY NUMBER						
LOCATION	1997		1998		TOTALS	
	#	%	#	%	#	%
INSIDE ASSESSMENT AREA (Melrose)	25	51.0	36	55.4	61	53.5
OUTSIDE ASSESSMENT AREA	24	49.0	29	44.6	53	46.5
TOTALS	49	100.0	65	100.0	114	100.0

Source: HMDA/LAR Data

Of the total loans originated within the assessment area, 72.1 percent were refinances, 21.3 percent were for home purchases, and 6.6 percent were for home improvements.

An additional review of the total dollar amount of HMDA reportable originations for the same period was also reviewed. The bank granted a total of \$15,954,000 in HMDA reportable loans during this period. Of these loans, \$7,171,000 or 45.0 percent were originated within the bank's assessment area. Refer to the following table for detail:

RESIDENTIAL LOANS ORIGINATED BY DOLLAR (000's)						
LOCATION	1997		1998		TOTALS	
	\$	%	\$	%	\$	%
INSIDE ASSESSMENT AREA (Melrose)	2,802	39.7	4,369	49.1	7,171	45.0
OUTSIDE ASSESSMENT AREA	4,251	60.3	4,532	50.9	8,783	55.0
TOTALS	7,053	100.0	8,901	100.0	15,954	100.0

Source: HMDA/LAR Data

As indicated in the above tables, the majority of HMDA reportable loans were originated from within the bank's assessment area at 53.5 percent. The total dollar volume of loans originated within Melrose was 45.0 percent.

Melrose Co-operative Bank is ranked as the number eight lender in the assessment area with 2.58 percent of the market share for 1997. The institutions that are above Melrose Co-operative in chronological order are as follows: Peoples Heritage Savings Bank, Winchester Savings Bank, Resource BancShares Mortgage Company, Countrywide Home Loans, Inc., MassBank, Eastern Bank, and Stoneham Co-operative Bank.

Based on all of the above information, it is evident that a majority of the number of the bank's residential loan originations has been extended within Melrose. Therefore, the institution's level of lending within its assessment area is considered to meet the standards for satisfactory performance.

### **3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS**

An analysis of HMDA reportable loan originations extended within the institution's assessment area, among various borrower income levels, was conducted. Originations were categorized by the ratio of the applicant's reported income to the 1997 and 1998 median family incomes of the Boston Metropolitan Statistical Area (MSA), which are \$59,600 and \$60,000, respectively. These income figures are based on estimated 1997 and 1998 data from the Department of Housing and Urban Development (HUD).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA; moderate income is defined as 50 to 79 percent of the median family income; middle income is defined as income between 80 and 119 percent of the median family income; and upper income is defined as income greater than 120 percent of the median family income.

According to this analysis, 31.1 percent of HMDA reportable loans within the bank's assessment area were made to low and moderate-income borrowers. Loan originations to middle-income borrowers account for 24.6 percent of the total originations within the assessment area, while upper-income borrowers account for 44.3 percent. Refer to the following table.

<b>LOANS ORIGINATED BY INCOME OF BORROWER (Number)</b>						
<b>% OF MEDIAN MSA INCOME</b>	<b>1997</b>		<b>1998</b>		<b>TOTALS</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<50%	4	16.0	5	13.8	9	14.7
50%-79%	3	12.0	7	19.5	10	16.4
80%-119%	8	32.0	7	19.5	15	24.6
>120%	10	40.0	17	47.2	27	44.3
NA	0	0.0	0	0.0	0	0.0
<b>TOTALS</b>	<b>25</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>61</b>	<b>100.0</b>

Source: HMDA/LAR Data

A comparative analysis was conducted with Melrose Co-operative Bank and all other HMDA reporting lending institutions within its assessment area in 1997. The percentage of the bank's lending to low and moderate-income borrowers is above all other lenders within the assessment area. In 1997, the bank granted 16.0 percent of its total residential mortgage originations to low-income borrowers, compared to 2.4 for all other lenders. Loan originations to moderate-income borrowers amounted to 12.0 percent of the bank's total mortgage loans, which is above the aggregate lending number of 9.4 percent. However, it should be stated that given the small number of loans generated by the bank, one or two loans translated into significant percentage changes.

The following table shows the number and dollar volume of loans originated by the bank in 1997 to low, moderate, middle and upper-income borrowers in comparison to the activity of the 177 HMDA reporting lenders in the assessment area:

<b>BANK 1997 HMDA REPORTABLE ORIGINATED LOANS COMPARED TO AGGREGATE DATA</b>								
<b>Borrower Income Level</b>	<b>Melrose Co-operative</b>		<b>All Other Reporters</b>		<b>Melrose Co-operative</b>		<b>All Other Reporters</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>	<b>\$(000)</b>	<b>%</b>
<50%	4	16.0	23	2.4	278	9.9	1,187	0.9
50%-79%	3	12.0	89	9.4	155	5.5	9,114	7.0
80%-119%	8	32.0	291	30.9	1,075	38.4	37,787	29.2
>120%	10	40.0	423	44.9	1,294	46.2	64,362	49.6
NA	0	0.0	117	12.4	0	0.0	17,189	13.3
<b>Total</b>	<b>25</b>	<b>100.0</b>	<b>943</b>	<b>100.0</b>	<b>2,802</b>	<b>100.0</b>	<b>129,639</b>	<b>100.0</b>

Source: HMDA Data compiled by PCI Services, Inc. CRA Wiz

A 1997 aggregate market share report obtained from PCI Services, Inc., CRA Wiz, indicated that for all HMDA reporters, Melrose Co-operative Bank ranked first in lending to low and moderate-income borrowers within its assessment area. The bank originated seven HMDA-reportable loans to borrowers in these income groups, capturing 5.88 percent of the market.



Given the demographics of the bank's assessment area, this borrower distribution appears to reflect adequate penetration among individuals of different income levels. Based on all the above information, the distribution of credit among different income levels is considered to exceed the standards for satisfactory performance.

#### 4. GEOGRAPHIC DISTRIBUTION OF LOANS

An analysis of HMDA reportable loans extended within the various census tracts contained in the bank's assessment area was conducted during the examination. As mentioned in the Performance Context, the bank's assessment area is comprised of four census tracts. Of these census tracts, three are middle-income and one is upper-income. The bank's assessment area does not contain any low-income census tracts. Refer to the following table for additional information on loans originated within the assessment area by census tracts.

Census Tract Income Category	1997				1998			
	Number of Loans		Dollar Amount		Number of Loans		Dollar Amount	
	#	%	\$(000)	%	#	%	\$(000)	%
Middle	18	72.0	1,902	67.9	22	61.1	2,363	54.1
Upper	7	28.0	900	32.1	14	38.9	2,006	45.9
<b>Total</b>	<b>25</b>	<b>100.0</b>	<b>2,802</b>	<b>100.0</b>	<b>36</b>	<b>100.0</b>	<b>4,369</b>	<b>100.0</b>

A comparative analysis of Melrose Co-operative Bank's lending performance with that of all other HMDA reporters within the assessment area was also conducted. HMDA data for calendar year 1997 was used to compare the geographic distribution of the bank's loans with those of other bank and non-bank entities such as large national mortgage companies, and credit unions that originated HMDA-reportable loans within moderate, middle and upper-income geographies. The results of this analysis are presented in the following table:

Census Tract Income Category	1997				1997 AGGREGATE			
	Number of Loans		Dollar Amount		Number of Loans		Dollar Amount	
	#	%	\$(000)	%	#	%	\$(000)	%
Middle	18	72.0	1,902	67.9	678	71.9	89,103	68.7
Upper	7	28.0	900	32.1	265	28.1	40,536	31.3
<b>Total</b>	<b>25</b>	<b>100.0</b>	<b>2,802</b>	<b>100.0</b>	<b>943</b>	<b>100.0</b>	<b>129,639</b>	<b>100.0</b>

As the above table indicates, Melrose Co-operative Bank's lending within all census tracts is similar to the aggregate institutions within Melrose for calendar year 1997.

Although the assessment area, (City of Melrose), does not contain any low or moderate-income census tracts, Melrose Co-operative Bank has exhibited a willingness to lend to low and moderate-income individuals as depicted in the distribution of credit among different income levels category.

Based on the analysis of the geographic distribution of loans, Melrose Co-operative Bank is considered to meet the standards of satisfactory performance in generating originations from all segments of its assessment area.

## **5. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRACTICES**

Based upon the review of the bank's public comment file and its performance relative to fair lending policies and practices the institution meets the standards for satisfactory performance.

### ***REVIEW OF COMPLAINTS***

Melrose Co-operative Bank has not received any complaints that were related to its CRA performance since the previous examination.

### ***FAIR LENDING POLICIES AND PRACTICES***

The following synopsis provides information concerning the institution's Fair Lending compliance.

### **STAFF TRAINING**

Staff training over the past two years has been relatively limited. The most recent training effort occurred during 1997, when every employee was required to watch a Fair Lending training video.

### **STAFF COMPOSITION AND COMPENSATION**

The bank currently employs 24 full and part-time individuals. The composition of the bank's staff appears to adequately reflect the demographics of the assessment area.

All lending personnel are paid on a salary basis, thereby encouraging loans of all dollar amounts.

### **OUTREACH**

The bank has developed relationships with several area organizations, which assists in its monitoring of community needs as well as informing the community of the credit services offered by the institution. Bank management maintains membership and/or close relationships with the following organizations: The Melrose Housing Authority, The Melrose Chamber of Commerce, The Melrose Affordable Housing Task Force, Homeowner Options for Massachusetts Elders, and The Mystic Valley Elder Services.

In addition, the Vice President of Lending meets regularly with local real estate agents and their clients in an effort to continually develop and offer loan programs, which meet the needs of current and prospective customers.

## **CREDIT PRODUCTS AND UNDERWRITING STANDARDS**

The bank's CRA Officer reviews credit products on an ongoing basis. The Security Committee also reviews the rates and products at its weekly meetings. In addition, the Long-Range Planning Committee meets quarterly and offers suggestions for loan products based on the needs of the bank and the expressed needs of the community.

Melrose Co-operative Bank offers its own first time home buyers program with reduced closing costs. This program was recently expanded to allow 95.0 percent loan-to-value financing with as little as a 3.0 percent down payment from the borrowers' funds.

## **MARKETING**

The bank's marketing and advertising is accomplished primarily through The Melrose Free Press and other local publications. The bank also advertises through lobby signs, banners, statement stuffers, and program books for local non-profit organizations.

## **CREDIT EDUCATION**

Melrose Co-operative Bank has not sponsored or participated in any credit education seminars over the past two years.

## **COUNSELING**

The bank refers all loan customers whose payments are more than 30 days delinquent, to the appropriate credit counseling services available in the area. A form containing the names, addresses and phone numbers of various counseling agencies is mailed to the borrower.

## **SECOND REVIEW PRACTICES**

The bank's CRA Officer reviews all loan applications prior to sending an adverse action notice. During the monthly board meetings, all board members are made aware of each denied and withdrawn application.

# THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

## MELROSE CO-OPERATIVE BANK

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **MAY 10, 1999**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_